

**BEFORE THE ILLINOIS COMMERCE COMMISSION**

**SURREBUTTAL TESTIMONY**

**OF**

**THOMAS J. BUNOSKY**

**ON BEHALF OF**

**AQUA ILLINOIS, INC.**

**DOCKET NO. 06-0285**

**September 12, 2006**

1 **I. Witness Identification And Background**

2 **1. Q. Please state your full name and business address.**

3 A. Thomas J. Bunosky, 1000 South Schuyler Avenue, Kankakee, Illinois,  
4 60901.

6 **2. Q. By whom are you employed and in what capacity?**

7 A. I am Vice President and Regional Manager of Aqua Illinois, Inc.  
8 ("AQUA").

10 **3. Q. Are you the same Thomas J. Bunosky who previously provided**  
11 **prefiled written direct and rebuttal testimony in this matter?**

12 A. Yes, I am.

14 **II. Purpose Of Testimony**

15 **4. Q. What is the purpose of your surrebuttal testimony in this**  
16 **proceeding?**

17 A. The purpose of my surrebuttal testimony is to provide the Company's  
18 responses on those issues where there remains disagreement between  
19 Aqua and Staff, with the exception of rate case expense, interest  
20 synchronization, depreciation of CIAC on PFC and franchise tax revenue  
21 and expense, which Mr. Schreyer is addressing. Those issues include  
22 Staff recommendations for disallowance of costs in the following areas:

- 23 1) The recommendation by Staff, premature in light of a statutorily  
24 mandated December tariff filing, that the Commission disallow a portion  
25 of power and chemical costs based upon Staff's unsupported assertion  
26 that Aqua's Unaccounted-For-Water is too high;
- 27 2) Aqua's consistently Commission-approved incentive compensation  
28 program;
- 29 3) Charitable contributions;
- 30 4) Advertising expense;
- 31 5) Sludge hauling expenses, and
- 32 6) Staff witness Mr. Ostrander's following proposals regarding Aqua's  
33 capital expenditures:
- 34 a) total disallowance of the contingency portion of Aqua's capital  
35 budget;
- 36 b) in-service dates of December 31, 2007 for two major projects that  
37 will be completed and in-service by December 31, 2006, and
- 38 7) Staff witness Ms. Selvaggio's broad policy proposals regarding Part 287  
39 updates.
- 40

41 **III. Power & Chemical Costs**

42 **5. Q. What is Staff's rebuttal position regarding power and chemical**  
43 **costs in rates?**

44 A. Staff continues to recommend disallowance of more than ten percent of  
45 Aqua's costs for power and chemicals, based upon the unsupported

proposition that the Kankakee system has an unaccounted-for water percentage that is currently above the industry rule-of-thumb of fifteen percent (15%).

**6. Q. Does Aqua object to Staff's position?**

A. Yes, for several reasons. First and foremost, Staff's insistence in pursuing this issue in this case, despite a clear legislative directive for utilities to file tariffs addressing unaccounted-for water in December 2006, is completely premature and essentially usurps the legislature's authority to determine how and when this issue is addressed by the Commission. The legislature has set a timeline for the Commission to address this issue in a separate filing, and that determination should not be superceded.

Second, Staff witness Luth's conclusion as to Aqua's unaccounted for water percentage for the Kankakee system is incorrect, without basis, and fails to take into account the important, system-specific factors required by the American Water Works Association (AWWA).

**7. Q. Please elaborate on the legislatively-mandated filing for unaccounted-for water.**

A. As I discussed at some length in my rebuttal testimony, Aqua Exhibit No. 10.0, there is already a legislatively mandated process in place for

addressing the issue of unaccounted-for water. The Illinois General Assembly amended the Public Utilities Act to require that:

***“by December 31, 2006***, each water public utility shall file tariffs with the Commission to establish the maximum percentage of unaccounted-for water that would be considered in the determination of any rates or surcharges. The rates or surcharges approved for a water public utility shall not include charges for unaccounted-for water in excess of this maximum percentage without well-documented support and justification for the Commission to consider in any request to recover charges in excess of the tariffed maximum percentage.”

220 ILCS 5/8-306(m) (*emphasis added*).

In light of the foregoing governing provision of the Public Utilities Act, Mr. Luth’s recommendation that a portion of Aqua’s rate request be denied based upon his erroneous calculations of Aqua’s unaccounted-for-water percentage is, at best, premature. The Commission should not usurp the legislative process for addressing unaccounted-for water based on Staff’s testimony on the subject in this proceeding.

Moreover, as I stated in my rebuttal testimony, Aqua has commenced the process of quantifying the various accounted for unmetered water categories that are necessary to ascertain a true level of unaccounted-for water, and developing the required tariffs for the Commission’s consideration on the December 31, 2006, legislatively required filing date. However, the required testing is an intensive and lengthy process. Indeed, what Mr. Luth perhaps fails to understand entirely is that the determination of unaccounted-for water is a complex exercise. There is,

in fact, no single standard methodology for defining and calculating water losses. The world is just not as black-and-white as Mr. Luth would have it be. Indeed, as treatises on the subject make clear, there are a number of variables that must be taken into account in defining unaccounted-for-water, including what to measure, which performance indicator to select, which water system characteristics to take into account and which to disregard. While Aqua has started the process of studying these issues in preparation for its filing before the Illinois Commerce Commission in December, no studies on the issue were provided to Staff in this case because they are only currently underway. There is no data to provide to them at this point, and this was clearly communicated to Staff in response to Data Request ML 2.02, attached hereto as Aqua Exhibit 11.1

Nevertheless, Mr. Luth persists in taking Aqua to task over not presenting “any information demonstrating that the Kankakee system should be expected to perform at a lower level than the industry rule-of-thumb of 15 percent Unaccounted-for Water”. ICC Staff Exhibit 11.0, p. 7. This assertion suffer from two fatal fallacies. First, Mr. Luth incorrectly assumes, without any valid basis, that the Kankakee system is performing at a lower level than the industry rule-of-thumb. Second, what Mr. Luth fails to acknowledge is (a) the complexity of the task that must be accomplished before the December filing, and (b) that Aqua is

unable to provide to Staff documentation because it does not yet exist.

Hence, Staff's criticism on that point is simply inappropriate.

**8. Q. Is there any other problem with Mr. Luth's first argument?**

Yes. Because Aqua's studies, which are not due until December 31, 2006, are not complete, Mr. Luth opines that "Aqua has not adequately explained and documented its *deviation* from the industry standard for Unaccounted-for water, therefore, an adjustment to Chemicals and Purchased Power is warranted." ICC Exhibit 11.0, p. 8, lines 169-171. This is highly problematic because Mr. Luth boldly assumes Aqua is in "deviation" from the industry standard without any proof. Mr. Luth cannot assume that Aqua's unaccounted-for water is 25.467% when necessary components of the unaccounted-for water equation are entirely unknown. For all anybody knows at this time, the Kankakee system's level of unaccounted-for water is at or below the 15% rule-of-thumb. Aqua's study is not complete, and as such has not been submitted to the Commission. In light of that fact, Mr. Luth does not have the data needed to properly calculate Aqua's unaccounted-for water percentage for Kankakee. Therefore, Mr. Luth's supposition in this regard is entirely baseless.

**9. Q. What is Mr. Luth's basis for his conclusion that the Kankakee system has an unaccounted-for water percentage above 15%?**

144 A. Staff witness Mr. Luth set forth the only basis for his conclusion in his  
145 direct testimony. He concluded that the Kankakee system has an  
146 unaccounted-for water percentage of 25.467% because, as he stated:

147 In 2005, Kankakee pumped and purchased a total of  
148 4,328,775,000 gallons from its four stations, but water sold to  
149 customers totaled only 3,226,363,000 gallons. Unaccounted-  
150 for water at Kankakee is therefore 1,102,412,000 gallons, or  
151 25.467 percent of water pumped and purchased.

152  
153 ICC Staff Ex. 6.0, p. 17, lines 328-32.

154

155 **10. Q. Is Staff's position supportable?**

156 A. No. Staff's conclusion on the Kankakee system's unaccounted-for water  
157 percentage is unsupported and unsupportable because the calculation  
158 Mr. Luth used is not the calculation to determine unaccounted-for water.  
159 Rather, Staff calculates metered ratio and then assumes in error that the  
160 volume of water that does not comprise the metered ratio is  
161 unaccounted-for water.

162

163 **11. Q. Did you explain this in your rebuttal testimony?**

164 A. Yes. I explained that Staff mistakenly used the calculation for metered  
165 ratio to calculate unaccounted-for water. I set forth the mathematical  
166 equation for both metered ratio and unaccounted-for water to show the  
167 difference. Aqua Ex. 10.0, Bunosky Reb. at 3 - 12.

168



12. Q. Would you please restate the mathematical equation for metered ratio here to show how Staff erroneously used that calculation to derive unaccounted-for-water?

A. Certainly. The equation for metered ratio is as follows:

$$\text{Metered Ratio} = \frac{\text{MW}}{\text{Water pumped to DS}}$$

Where: DS = Distribution System  
MW = Metered Water Sales to Customers

This equation is derived directly from the Water Distribution System Handbook referenced by Mr. Luth, as stated in my Rebuttal Testimony.

In Staff's case, Mr. Luth assumed that all water pumped to the distribution system that does not comprise metered water sales to customers is unaccounted-for water, and divided that amount by the amount of water pumped to derive what it asserts is the unaccounted-for-water percentage. In other words, Staff, in error, calculated unaccounted-for water and the percentage of unaccounted-for water as follows:

$$\text{Staff's Unaccounted-for Water} = \text{Water pumped to DS} - \text{MW}$$

$$\text{Staff's Unaccounted-for Water \%} = \frac{\text{Water pumped to DS} - \text{MW}}{\text{Water pumped to DS}}$$

Where: DS = Distribution System  
MW = Metered Water Sales to Customers

ICC Staff Ex. 6.0, p. 17, lines 328-32.

199 **13. Q. Why is the equation Staff's used to calculate unaccounted-for water**  
200 **incorrect?**

201 A. Because the amount of water that is left over between the total water  
202 pumped and metered water sales to customers does not equal  
203 unaccounted-for water. It is not the difference between total water  
204 pumped and metered water sales to customers. This is because there  
205 are a large number of uses for water that are considered "accounted-for"  
206 other than metered sales to customers. These uses are generally  
207 categorized into two main categories: (i) other metered water uses, and  
208 (ii) accounted for unmetered water uses, of which there are ten (10)  
209 general categories. I explained the uses that fall within these two main  
210 categories in my rebuttal testimony. Aqua Ex. 10.0, p. 4 - 9.

211  
212 **14. Q. Given that the volume of water distributed that is not used for**  
213 **metered sales to customers may be used for numerous other**  
214 **"accounted-for" uses, how do you determine what amount of the**  
215 **water distributed is "unaccounted-for?"**

216 A. You have to calculate the difference between the volume of water  
217 pumped and the total of all accounted-for uses. As such, the actual  
218 equation for calculating unaccounted-for water is as follows:

219 
$$\text{UFW} = \text{Water pumped to DS} - [\text{MW} + \text{OMW} + \text{UW}]$$

220  
221 Where: UFW = Unaccounted-for Water  
222 DS = Distribution System  
223 MW = Metered Water Sales to Customers  
224 OMW = Other Metered Water Uses

225 UW = Accounted for Unmetered Water  
226  
227 Staff, on the other hand, only calculated the difference between the  
228 volume of water pumped and one accounted-for use, namely metered  
229 water sales to customers [i.e., Water pumped to DS - MW].  
230

231 **15. Q. Would you please restate here the equation for calculating the**  
232 **percentage of unaccounted-for water that is based on the above**  
233 **correct equation for unaccounted-for water?**

234 A. Yes. The equation for calculating the percentage of unaccounted-for  
235 water is as follows:

$$\text{UFW} = \frac{\text{Water pumped to DS} - [\text{MW} + \text{OMW} + \text{UW}]}{\text{Water pumped to DS}}$$

236  
237  
238  
239 Where: UFW = Unaccounted-for Water  
240 DS = Distribution System  
241 MW = Metered Water Sales to Customers  
242 OMW = Other Metered Water Uses  
243 UW = Accounted for Unmetered Water  
244

245 **16. Q. Is the accuracy of your stated equations for unaccounted-for water**  
246 **and percentage of unaccounted-for water verifiable?**

247 A. Yes. They are stated in the Water Distribution Systems Handbook cited  
248 by Mr. Luth. In addition, Unaccounted For Water is discussed in the  
249 Water Audits and Leak Detection Manual of Water Supply Practices  
250 (AWWA Manual M36) and Appendix A of that Manual, which are  
251 attached hereto for reference as Exhibits 11.2 and 11.3 respectively.  
252 These treatises are considered reliable authority in the industry, and

Appendix A lists all the metered and unmetered uses of water that need to be calculated to determine the amount of recoverable leakage in a system that can realistically be expected to be recovered through various measures. As can be seen from this Appendix, many other areas besides metered sales to customers needs to be analyzed in detail to determine the realistic recoverable leakage amount. In fact, the entire Manual of 112 pages is dedicated to this analysis to determine the cost benefit ratio to determine if reducing leakage is worthwhile. And yet, as is evident from a cursory review of the relevant pages provided, there are differences that must be addressed and selected before the determination of unaccounted-for water can even commence.

**17. Q. You stated that you testified to the correct calculations for unaccounted-for water in your rebuttal testimony. How did Staff witness Mr. Luth respond?**

A. He did not dispute the veracity of the equations that I set forth in my rebuttal testimony based upon the Water Distribution Systems Handbook. He just said that “[e]ach of the 10 factors discussed by Mr. Bunosky,” by which he presumably meant the 10 “accounted-for unmetered water” uses that I described in my rebuttal testimony, are incorporated into the 15 percent industry standard [for unaccounted-for water.]” Staff Ex. 11.0, p. 7.

276 **18. Q. Would you please respond?**

277 A. Mr. Luth is confusing apples with oranges. This is not altogether  
278 surprising, since the subject of unaccounted-for-water is complex and  
279 mired with details that can indeed be confusing. While Mr. Luth is  
280 correct that the 15 percent industry rule-of-thumb includes a component  
281 for *accounted-for* unmetered water uses, he fails to recognize that Aqua  
282 Illinois has not completed its study of the Kankakee system so as to  
283 incorporate that number into its calculation of unaccounted-for water.  
284 Indeed, the industry rule-of-thumb clearly recognizes that the 10  
285 accounted-for unmetered water uses need to be calculated first so that  
286 they can be taken into account, i.e., subtracted along with metered water  
287 sales to customers from total water pumped to the distribution system,  
288 when calculating a system's unaccounted-for water. The rule-of-thumb  
289 recognizes that the 10 accounted-for unmetered water uses already  
290 would have been subtracted from total water pumped to the distribution  
291 system in the derivation of the 15%.

292  
293 **19. Q. Is the accuracy of your proposition verifiable?**

294 A. Yes. It is set forth in the Water Distribution system Handbook relied  
295 upon by Mr. Luth, as well as in Exhibits 11.2 and 11.3 reference above  
296 and attached hereto.

298 **20. Q. Is there any other reason that the Commission should accept your**  
299 **interpretation as accurate?**

300 A. Yes. As is evident from a review of the language in the Water  
301 Distribution Systems Handbook and the attached Exhibits, my  
302 recitation of the equation is accurate. Only my interpretation  
303 conforms to the verified equation for calculating unaccounted-for  
304 water set forth above.

305

306 **21. Q. Would you please explain why Mr. Luth's conclusion on the**  
307 **Kankakee system's unaccounted-for water is unsupported?**

308 A. Because he has not calculated the system's unaccounted-for water.  
309 Neither Staff (nor Aqua for the reasons explained below) have the  
310 information necessary to perform the calculation at this time. Mr. Luth  
311 has not presented a reliable basis for the Commission to adopt an  
312 amount of unaccounted-for water for the Kankakee system in this  
313 proceeding.

314

315 **22. Q. Did Mr. Luth present any other response to your rebuttal testimony**  
316 **on this issue?**

317 A. Yes. He also advances essentially three arguments, none of which  
318 override the fact that he has not supported his conclusion on level of the  
319 system's unaccounted-for water and, thus, his recommendation to adjust  
320 Aqua's recovery of power and chemical costs. First, Mr. Luth argues

that Staff requested completed studies Aqua has done addressing unaccounted-for water for the Kankakee system, and none were provided. As a result, he opines that “Aqua has not adequately explained and documented its deviation from the industry standard for Unaccounted-for-water, therefore, an adjustment to Chemicals and Purchased Power is warranted.” ICC Exhibit 11.0, p. 8, lines 169-171

Second, he asserts that he did not base his adjustment on an erroneous 27% unaccounted-for water as opposed to, what Mr. Luth asserts is a correct calculation of 25.467% unaccounted-for water. Third, he notes that industry literature posits that unaccounted-for water “should be” less than fifteen percent.

**23. Q. How does Aqua respond to Staff’s position that industry literature posits that unaccounted-for water “should be” less than fifteen percent?**

A. Staff’s position completely disregards one very critical element of the industry guideline referenced – that it is “highly site specific”. Each of the factors enunciated in the Water Distribution System Handbook sets must be taken into account in doing any unaccounted-for water calculation. Each also states that the fifteen percent “rule of thumb” is a guideline, not a hard and fast rule, because the prevailing literature recognizes that system factors such as topography, soil and rock conditions, age, type of materials, number of meters, number of

344 services, miles of pipe, etc. all must be taken into account in determining  
345 an acceptable level of unaccounted for water on a system-by-system  
346 basis. Certainly, the Illinois legislature understood this important fact  
347 because it did not instruct the Commission to adopt an across-the-board  
348 allowable level of unaccounted-for water of 15% for every water system  
349 in Illinois come December. Instead, the legislature directed each utility  
350 to provide the Commission with relevant evidence for the Commission to  
351 determine an acceptable level of unaccounted-for water on a system-by-  
352 system basis.

353  
354 Moreover, The Water Distribution System Handbook goes on to note  
355 that “the real rule for deciding whether unaccounted for water exists at  
356 an acceptable level is an economic one; the economic savings in water  
357 production at least offsets the cost of reducing unaccounted for water.  
358 [ . . . ] In a utility with excess capacity, little growth and inexpensive  
359 treatment and pumping, unaccounted for water exceeding 20 percent  
360 may be acceptable”.

361  
362 Importantly, to customers, a significant unaccounted-for water  
363 percentage can, depending upon the characteristics of the system,  
364 require significant expenditure to bring down. Those capital costs will be  
365 recoverable in rates, so there is always a balance between the need to  
366 minimize unaccounted-for water, to the extent possible, and the need to



367 keep rates reasonable for customers. As the Water Distribution Systems  
368 Handbook acknowledges, it is this economic balance that lies at the  
369 heart of this issue, and will undoubtedly be examined by the Commission  
370 in December when it receives all water utilities' documentation on  
371 unaccounted-for water as part of the legislatively-mandated process.

372  
373 **24. Q. How do you respond to Mr. Luth's assertion that the 15% industry**  
374 **rule-of-thumb should be considered reasonable?**

375 A. I am not asserting that 15% is not reasonable as a "rule-of-thumb." My  
376 point, which I've made exhaustively, is that there is no evidence at this  
377 point in time that the Kankakee system is above the 15%, or that, given  
378 the system characteristics, it should be below 15%. There is no  
379 evidence from which to conclude that the 15% rule-of-thumb should  
380 automatically apply to the Kankakee system. System factors such as  
381 topography, soil and rock conditions, age and type of materials, all of  
382 which must be taken into account in determining an acceptable level of  
383 unaccounted-for water on a system-by-system basis, have not yet been  
384 analyzed for the Kankakee system. The Commission will not have the  
385 information available that is necessary to make these determinations  
386 until the December 31, 2006, legislatively-mandated filing.

388 **25. Q. Should the Commission disallow recovery of Aqua's costs in this**  
389 **rate case based upon Staff's unaccounted-for water presentation**  
390 **and argument?**

391 A. No. The legislatively-mandated proceeding in which the Commission will  
392 consider all the relevant evidence is only three and a half months away  
393 from the time of this surrebuttal testimony. If all the relevant factors  
394 necessary to calculate a true amount of unaccounted-for water were  
395 known, as Aqua is preparing for the upcoming tariff filing in December,  
396 Aqua's unaccounted-for water could be at or below the fifteen percent  
397 general guideline set forth in the Water Distribution Systems Handbook.  
398 There is no way to tell at this point in time. Hence, it is premature and  
399 inappropriate to address the issue in this case, when it will be addressed  
400 by statutory mandate in December. The Commission should not act  
401 hastily and prematurely based on Staff's unsupported assumptions in  
402 this docket.

403  
404 **IV. Incentive Compensation**

405 **26. Q. What is Staff's rebuttal position with regard to Aqua's incentive**  
406 **compensation expense?**

407 A. Staff maintains its recommendation that incentive compensation  
408 expense of \$71,876 be disallowed in rates. Ms. Everson holds fast to  
409 her belief that Aqua's incentive compensation plan does not benefit  
410 ratepayers, but rather benefits solely shareholders. Indeed, Ms. Everson

takes the program to task on three fundamental bases. First, she continues to argue that Aqua's recovery should be disallowed because the program's minimum financial thresholds allegedly benefit shareholders alone, even though the Commission has repeatedly and consistently rejected this argument as it pertains to Aqua's program. Second, she continues to cite the disallowed incentive compensation programs of *other companies* as persuasive authority while ignoring the Commission's consistent approval of Aqua's plan. Third, she reiterates the argument from her direct testimony that the benefits of the program do not inure to the benefit of ratepayers, despite the fact that the Company has provided specific evidence to the contrary and that the Commission has, once again, consistently found that Aqua's plan does produce substantial ratepayer benefits.

**27. Q. Are Ms. Everson's criticisms warranted?**

A. No. Indeed, Ms. Everson generally reiterates that which she set forth in her direct testimony. There are no particularly new elements to her arguments. They are simply presented in slightly different terms.

**28. Q. What is the Commission's measure of an acceptable incentive compensation program?**

A. The Commission, in numerous cases including the prior Kankakee rate case at Docket No. 03-0403, held that, in order to be recoverable in

434 rates, an incentive compensation program must “confer upon ratepayers  
435 specific dollar savings **or** other tangible benefits”. (Emphasis added).

436 Moreover, in that case, the Commission held that Aqua’s incentive  
437 compensation program appears:

438 “to set targets for a broad range of objective, rather than tying  
439 compensation directly to earnings performance. Many of the  
440 goals established by the Company promote ever-increasing  
441 water quality, customer service and system safety. While  
442 investors may derive some benefit from certain cost reduction  
443 goals, the Commission is of the opinion that ratepayers are the  
444 primary beneficiaries of the incentive compensation program  
445 as a whole”.

446 ICC Order, Docket No. 03-0403, p. 15.

447  
448 Similarly, in the last Vermillion rate case, Docket No. 04-0442. the  
449 Commission again found that Aqua’s plan confers ratepayers benefits:

450 “The Commission believes that the examples of Vermillion employees  
451 achieving goals under this plan provide support for recovery of the  
452 incentive compensation expense. Furthermore, the incentive  
453 compensation plan here is virtually identical to the plan approved in a  
454 previous docket. the Commission declines to accept Staff’s  
455 proposed adjustment for incentive compensation expense”.

456  
457 ICC Order, Docket No. 04-0442, p.22.  
458

459 **29. Q. Does Aqua's incentive compensation program still meet the**  
460 **Commission's test?**

461 A. Yes. As set forth in Aqua Exhibits 10.2 and 10.3, there are numerous  
462 benefits to customers from the goals of the program. Those exhibits  
463 sufficiently detail the benefits to customers of the various goals of the  
464 program.

465  
466 Ms. Everson, however, challenges them, stating that "many of the goals  
467 appear to be ordinary duties that the Company's employees should  
468 perform as part of his or her regular duties". ICC Staff Exhibit 7.0, p. 34.  
469 What Ms. Everson's argument misses is that that is precisely the point.  
470 If employees do their job well, they are rewarded with incentive  
471 compensation awards. They do not automatically get salary raises every  
472 year. Hence, employees are incented to do their jobs to the best of their  
473 abilities and meet their goals. And when their stated goal is to provide  
474 high quality service, customers benefit. The Commission recognized  
475 this when it discussed the incentive compensation program in the last  
476 Kankakee case when it noted that the program "targets a broad range of  
477 objectives, rather than tying compensation directly to earnings  
478 performance" and had goals that were tied to "water quality, customer  
479 service and system safety" – the very goals that Ms. Everson asserts  
480 should be disregarded here. Docket No. 03-0403, p. 15.

482 **30. Q. Has the Commission previously ruled on and discussed Aqua's**  
483 **incentive compensation program?**

484 A. Yes. The Commission only disallowed Aqua's recovery at the very  
485 outset of the plan in the early 1990s because, at that time, the amount  
486 was speculative and there was a complete lack of any payment history.  
487 In Aqua's next rate case in 2000, which was settled, the parties agreed  
488 to Aqua's recovery subject to an adjustment. See ICC Order, Docket  
489 NO. 03-0403, p.15. Subsequently, as discussed in my rebuttal  
490 testimony, Aqua's incentive compensation program has been approved  
491 in the previous rate case for Aqua's Kankakee Division, Docket No. 03-  
492 0403, and then in Vermillion rate case at Docket No. 04-0442. Finally,  
493 in Aqua's last rate case, which was for the Oak Run and Woodhaven  
494 Divisions, Staff did not contest Aqua's recovery. In each of these prior  
495 cases, the same program that is at issue here was at issue.

496  
497 **31. Q. Do the minimum financial thresholds established in the incentive**  
498 **compensation program protect ratepayers?**

499 A. Yes, they do. Contrary to Ms. Everson's argument, the minimum  
500 thresholds for awarding incentive compensation do protect ratepayers.  
501 To the extent the Company continues to receive the return that the  
502 Commission authorizes in this case, then the threshold will be met and  
503 the awards provided. It is only in the event that the Company  
504 experiences far lower than anticipated revenues, such as in the event of

a very wet year, that it will have a revenue stream that is below budgeted amounts. This means that the Company will be required to maintain service quality, service availability, customer service, emergency response, etc., on reduced revenues. It is only under just these circumstances that the revenue threshold operates to insure that the incoming revenues go, first and foremost, to serving customers. Hence, contrary to Ms. Everson's assertion, it is not the shareholders who benefit. To the contrary, customers are protected.

**32. Q. How do you respond to Ms. Everson's assertion that Aqua's recovery should be prohibited because the Commission has found other utilities' plans inappropriate for recovery?**

A. Ms. Everson notes that the Commission has disallowed recovery for other utilities. However, Aqua's plan is not the same as the other utilities' plans that were at issue in those cases. In every single case in which Aqua's plan has been before the Commission, with the single exception of the very first case in 1995 when the plan was speculative due to a lack of payment history, the Commission has found Aqua's plan proper for recovery. In treating Aqua's recovery different than other utilities on a continual basis, the Commission has clearly found characteristics of Aqua's plan to be different than those of other utilities. Aqua is presenting the exact same plan in this case that the Commission

has approved in all of its earlier cases. Staff has presented no reason for deviation in Aqua's recovery of its plan here.

Through both my direct and rebuttal testimonies, the Company has presented significant evidence that its plan continues to operate as it has every time in the past when the Commission has consistently approved it for recovery; it continues to produce benefits that accrue directly to ratepayers.

**33. Q. How do you respond to Ms. Everson's criticism that the incentive compensation program benefits shareholders and not ratepayers.**

A. As I discuss above, the program has identifiable, demonstrable and tangible benefits to customers, as set forth in Exhibit 10.2 and 10.3 of my Rebuttal Testimony. As Staff notes, it is proper for the incentive compensation program to also result in benefits to shareholders – its benefits just cannot accrue solely to shareholders alone. And of course, the program benefits employees, and properly so.

It is important to note that, though the Commission's decisions with regard to incentive compensation require that they bestow tangible benefits to customers, they do not require that an incentive compensation program benefit customers alone. Indeed, any well-structured incentive compensation program will also benefit employees



and shareholders. The key, however, is that the program must have customer benefits, which Aqua's does.

**V. Charitable Contributions**

**34. Q. How do you respond to Staff's continued recommendation to disallow charitable contributions or donations that are community related?**

A. Section 9-227 of the Public Utility Act sets forth the general rule for recoverability of charitable contributions. It provides, in relevant part, that "It shall be proper for the Commission to consider as an operating expense . . . donations made by a public utility for the public welfare or for charitable, scientific, religious or educational purposes provided that such donations are reasonable in amount." Indeed, that same section of the law prohibits the Commission from disallowing these donations.

**35. Q. Do Aqua's charitable contributions meet this standard?**

A. Yes, they certainly do. In my rebuttal testimony, I detailed the basis for each charitable contribution and its associated public welfare purpose. Indeed, each contribution made by Aqua to its local community is rooted in promotion of the public welfare. Consequently, under the terms of the Act, the contributions are recoverable.

**36. Q. Would you please elaborate on why contributions to local community organizations are rooted in the public welfare?**

574 A. Yes. The purpose of community organizations is to provide public  
575 benefits to residents, i.e., the ratepayers. Such benefits, while promoting  
576 the public welfare in and of themselves, also promote the retention of  
577 residents and encourage other residents to move into the area. The  
578 entire public in the Kankakee area benefits from the expansion of the  
579 local community and the additional economic strength such expansion  
580 generally provides. Ratepayers in particular benefit from the increase in  
581 water consumers that are added to the system.

582  
583 **37. Q. Do such public benefits promote the development of industries?**

584 A. Yes. All else being equal, companies want to locate where their  
585 employees and their families will live healthy and happy lives. The more  
586 industry that locates in the area, the better it is for ratepayers because  
587 both the industry and the added residential customers will share in the  
588 overhead costs of the water system. Conversely, if industry does not  
589 find the area a desirable place to locate, perhaps because of a lack of  
590 local community organization support to provide public benefits, then the  
591 number of ratepayers will decline to the detriment of those ratepayers  
592 who remain. As such, I believe it is very clear that Aqua's support of  
593 local community organizations promotes the public welfare.

594  
595 **38. Q. Are the donation amounts reasonable, as required by the Act?**

596 A. Yes, they are. As set forth in my rebuttal testimony, the charitable  
597 contributions range in amount from \$100.00 to \$1,500.00. These are  
598 certainly not excessive in amount. Moreover, as I indicated in my  
599 rebuttal testimony, recovery of the reasonable charitable contributions in  
600 rates does not burden ratepayers, adding less than 0.04% to the overall  
601 Kankakee Division revenue requirement. To the customer, the impact  
602 will be a penny and a half per month. Certainly that is a reasonable  
603 amount to support the communities in which our customers live and  
604 work. To the extent the Commission finds valid arguments by both Staff  
605 and the Company, it should not judge all contributions in total but rather  
606 should review each contribution individually to assess which meets the  
607 standard for recovery and which does not, and allow that portion which  
608 the Commission finds does meet the standard.

609  
610 **VI. Industrial Association Dues**

611 **39. Q. What is Staff's rebuttal position regarding Aqua's Industrial**  
612 **Association Dues?**

613 A. Both Staff and the Company agree that amounts paid to industrial  
614 associations that go to support lobbying activities are not appropriate for  
615 inclusion in rates. This is appropriate, as the Act specifically excludes  
616 political activity of lobbying expenses from rates. Staff has made an  
617 adjustment to its position on the amount of appropriate industrial

association dues based upon Aqua's rebuttal testimony. Staff and Aqua are now in agreement with this element of association dues.

**40. Q. What is Aqua's response to Staff's remaining \$(1,571) adjustment?**

A. At this point, although Aqua and Staff still disagree on the issue, Aqua foresees that continuing to jostle with Staff on this issue would merely serve to increase rate case expense to no good end. Hence, for purposes of this proceeding, Aqua will accept Staff's position.

**VII. Advertising Expense**

**41. Q. Do you agree with Mr. Ostrander's rebuttal position as to advertising expenses?**

A. No. Mr. Ostrander continues to classify much of Aqua's advertising as "goodwill in nature." What he misses is that many of Aqua's advertisements contain information about the Company that are permissible under Illinois law for inclusion in rates.

**42. Q. What are the requirements for advertising expenses to be included in rates?**

A. The Public Utilities Act, Section 9-225, sets forth specific requirements for the categories of advertising that shall be considered as allowable operating expenses for utilities, including:

(a) advertising which informs consumers how they can conserve or promoting efficiency;

(b)Advertising that identifies the location and operating hours of company business offices, and

(c) other advertising that is not political, promotional, institutional or goodwill in nature.

**43. Q. Do Aqua’s advertisements fall within the allowable categories as set forth in the Public Utilities Act?**

A. Yes. As stated in my rebuttal, the Radio Scripts on WCLR, Inc., WIVR/River Country, and WVLI inform the customer, promote trust in the water supply, and educate the customer about water usage and conservation. This conservation message is specifically allowable under the terms of the Public Utilities Act.

Aqua’s advertisement in the Village Profile map shows the location of the Company and provides telephone numbers. This falls squarely within the allowable category of identifying “the location and operating hours of company business offices.” Therefore, this expense is also allowable.

The advertisements in the Daily Journal, Kankakee’s most read newspaper in the service area, informs customers of safety measures and service interruptions. These advertisements fall within the allowable

categories of the Public Utilities Act, since customers may experience lower water pressure during hydrant flushing. The ads also inform the customers regarding safety measures, service interruptions, and when hydrant flushing will be taking place.

Ads published in the Daily Journal and Taylor Publishing are educational in nature. All ads contain location information and telephone numbers for the Company. The Company provided cost information to Staff in response to discovery, along with samples of the ads clearly demonstrating their content and value.

The directory produced by Illinois Senior Citizens contains the Company's address and telephone number in large print. This locational information fits squarely within the allowable categories of advertising expense.

The directory for the City of Kankakee, which is published each year, lists all businesses in the area, is distributed to existing and future rate customers, and includes the Company's address and telephone number. The directory advertising therefore falls squarely within an allowable category for inclusion in rates.

Finally, Aqua's specific sponsorship of the Program on the Chicago Bears is, as stated in my rebuttal testimony, a segment regarding summer safety tips, which are specifically allowed as by Section 9-225(3).

**44. Q. Mr. Ostrander also says that the Company has not provided support for some of its advertising costs. Please respond.**

A. The Company provided support for its advertising costs in response to Data Request JMO 1.04, attached hereto as Exhibit 11.4. As with charitable contributions, to the extent the Commission finds valid arguments by both Staff and the Company, allowance of those expenditures viewed by the Commission as meeting the statutory requirements would be acceptable to Aqua.

#### **VIII. Sludge Expense**

**45. Q. Mr. Bunosky, please respond to Ms. Everson's rebuttal position regarding sludge expense.**

A. In her rebuttal testimony, Ms. Everson continues electing to use a 4-year historical average for these costs, rather than including the projected increase in sludge hauling expense. The fundamental flaw in this approach is that ratemaking is prospective in nature. Indeed, the Company has utilized a 2007 projected test year, so as to base its rates, to the extent possible, on what costs will be in 2007. This, of course, is

the raison d'être for a future test year. Consequently, it is only reasonable to utilize projected sludge hauling expense as well.

Ms. Everson, however, elects to recommend disallowance of a portion of Aqua's projected expense because she does not find an explanation for the increase in expense for 2005 even though it was provided in my rebuttal testimony.

**46. Q. What is the reason for the increased sludge expense included in the Company's test year?**

A. As I explained at some length in my rebuttal testimony, in 2005, the Company removed 9,912 dry tons of sludge. See response to MHE 6.01, attached hereto as Exhibit 11.5. As the response to MHE 6.01 shows, this amounts to an increase of 2,382 tons in one year, and an associated increase in expense of \$66,696.

As a result of this increase, in February 2006 the Company began monitoring the quantity of sludge produced daily, so as to assess quantity. Prior to that point, sludge tonnage being produced was not being metered, but instead was estimated based upon volumetric calculations. Based upon the results of the 2006 monitoring and the resulting calculations of dry tonnage that would be produced from the High Service Pumpage, Aqua ascertained at that time that the actual



amount of dry tons produced annually would be close to 12,500.  
Hence, once that determination was made in 2006, the Company  
determined that it must apply for an increase to its IEPA Water Pollution  
Control Permit for Land Application of Sludge. See Exhibits 11.10, 11.8  
and 11.9 attached hereto, which consists of the IEPA Supplemental  
Permit that has been received to allow 14,000 tons per year to be land  
applied from the quarry, as well as the Company's test results that were  
the basis for the Company's application for the permit increase.

**47. Q. Is Aqua seeking to have the cost of the increased sludge expense  
recovered in this proceeding?**

A. No, and I believe that this is a point that the Staff has missed. Aqua is  
not seeking recovery in this proceeding of the increased cost associated  
with the projected increased amount of dry tons of sludge of 12,500.  
Rather, Aqua is only seeking to recover the maximum amount allowed  
under its prior permit. Aqua raised the issue of the need to increase its  
permit to accommodate the projected increased amount of sludge in  
order to assure the Commission that the Company is, as it always has,  
acting responsibly in proactively addressing such important issues. The  
fact that the IEPA has already granted Aqua's permit increase is also  
important in that it demonstrates that the IEPA agreed with Aqua's test  
results and position that Aqua must remove more sludge in future years  
than it has historically. Though for purposes of the rate proceeding, the

increase in sludge tonnage is ancillary, Aqua hastens to note that the increase in its dry tonnage is not merely anomalous as Ms. Everson suggests, but is real and verifiable, as noted in Aqua's test results appended hereto.

As such, while Aqua has only requested recovery of its costs to remove the maximum amount of sludge allowed under its prior permit, the fact is that with the verified level of increased sludge being produced annually and the IEPA's increased permit, Aqua will in fact incur costs to remove much more sludge than the maximum amount allowed under its prior permit, and indeed more than it has budgeted, since the budget reflects 9,436 tons for 2007. If anything, therefore, the Commission should adjust Aqua's estimate for sludge removal expense upward. Staff's proposal to reduce Aqua's allowance for sludge removal in the face of these facts is wholly unreasonable. In fact, it would give rise to environmental and health concerns if Aqua were to ignore its test results and the IEPA's finding that Aqua should be removing larger amounts of sludge each year and, instead, decrease in future years the amount of sludge it removes to the lower levels it removed in 2002 - 2004, as Staff recommends.

775 **IX. Capital Investment and the 287 Filing**

776 **48. Q. To what Staff witnesses are you responding on this issue?**

777 A. Staff witness Ms. Selvaggio recommends that the Commission disallow  
778 Aqua's update to capital expenditures even though the Administrative  
779 Law Judge (ALJ) permitted Aqua to file it. She also sets forth  
780 recommendations for future updates pursuant to 83 Ill. Adm. Code  
781 §287.30 of the Commission's regulations. Staff witness Mr. Ostrander  
782 accepts the update to Aqua's capital expenditures, but recommends  
783 three adjustments to Aqua's budget for capital expenditures. I am  
784 responding to both Ms. Selvaggio and Mr. Ostrander.

785  
786 **49. Q. What is Staff's recommendation with regard to Aqua's 287 filing?**

787 A. Even though the ALJ approved Aqua filing its update to capital  
788 expenditures for consideration in the case, Staff witness Ms. Selvaggio  
789 asserts that the Commission should disapprove it for two reasons: (1)  
790 Aqua allegedly did not file all affected Part 285 schedules and  
791 workpapers, and (2) Staff allegedly found some errors in the updated  
792 information.

793  
794 **50. Q. In your opinion, should the ALJ's ruling allowing Aqua to file the**  
795 **update be upheld?**

796 A. Yes. Contrary to Ms. Selvaggio's assertion, Aqua filed all schedules and  
797 workpapers required by the ALJ. While Staff asked in its response to

Aqua's motion for a few additional schedules to be filed beyond those that Aqua filed along with its motion and the additional ones the ALJ ultimately required, Aqua properly explained in its reply why it was either unnecessary or inappropriate to file the additional schedules that Staff requested.

**51. Q. Would you please explain here?**

A. Yes. Staff sought to have Aqua file a few of the "A" and "G" schedules. With respect to the "A" schedules, Staff already had the information that would be set forth on the updates to the schedules. Putting the information into the "A" schedule format would not have provided Staff or the Commission any new information. Staff's assertion that the schedules, nonetheless, had to be updated for Aqua's filing to be complete was an extreme example of placing form over function. The ALJ appropriately did not require Aqua to go to the time and expense of putting previously provided information into new formats. See Aqua Reply to Staff Response to 287 Motion, p. 16.

**52. Q. What about the few "G" schedules Staff identified?**

A. Staff's position that those schedules had to be updated was equally unreasonable. For example, Schedule G-1, the lack of which Staff asserted rendered Aqua's update "deficient," calls for a comparison of Aqua's forecast or budget to its actual expenses "for each of the prior

three years.” 83 Ill. Adm. Code §285.7005(a). The prior three years are 2003, 2004 and 2005. Aqua’s update to its capital expenditures for the future 2007 test year obviously would not impact the information it provided at the time of its original tariff filing for 2003, 2004 and 2005. Aqua addressed the unreasonableness of Staff’s assertions with respect to the other “G” schedules it requested in Aqua’s Reply, and in the interest of brevity, those comments are incorporated herein without repetition. See Aqua Reply to Staff Response to 287 Motion, pp. 14-16.

**53. Q. How do you respond to Staff’s position that the Commission should disallow Aqua’s update because of alleged errors?**

A. Ms. Selvaggio alleges that Aqua’s update contained two errors. First, she alleges, based on Mr. Ostrander’s testimony, that Aqua set forth incorrect in-service dates for two construction projects, namely the WTP Generator and the Standpipe at Target. In fact, the in-service dates Aqua set forth were entirely correct. I explain why this is so in response to Mr. Ostrander below. Nonetheless, because this is not even an error, it certainly is not a basis for the Commission to overturn the ALJ’s allowance of Aqua’s update.

Second, Ms. Selvaggio claims Staff found errors in Aqua’s AFUDC schedules. Aqua Witness Mr. Schreyer addresses this issue in his surrebuttal testimony.

845 **54. Q. What is your overall conclusion on Ms. Selvaggio's proposal to**  
846 **disallow Aqua's Part 287 update?**

847 A. The Commission should disregard her proposal. The parties fully briefed  
848 the issue on Aqua's Motion to file the update before the ALJ. The ALJ  
849 fully considered Staff's arguments and ruled in Aqua's favor. Staff is re-  
850 iterating its rejected arguments now in testimony. For all of the reasons  
851 Aqua set forth in its Motion and Reply to Staff's Response thereto, the  
852 Commission should find in accordance with the ALJ's Ruling and allow  
853 Aqua's update.

854  
855 **55. Q. Ms. Selvaggio also proposes additional rules for future Part 287**  
856 **Filings. Please respond.**

857 A. Ms. Selvaggio spends the majority of her rebuttal testimony making  
858 recommendation as to additional rules for 287 filings, which include:

- 859 1) An update will only be allowed if the possibility for an update is  
860 incorporated into the case schedule at the pre-hearing conference.  
861 2) An update will only be allowed if it is scheduled to be filed prior  
862 to the filing of the utility's rebuttal testimony.  
863 3) An update will only be allowed if the utility commits to respond to  
864 data requests related to the updated filing in an expedited manner  
865 at the prehearing conference.

866  
867 In addition, Ms. Selvaggio details what schedules utilities would be  
868 required to file as part of updates pursuant to Part 287 in the future.

**56. Q. What is Aqua's response to these proposed rules?**

A. The rules proposed by Staff are not appropriate for consideration in this proceeding. They are broad in scope, and would apply to all future 287 filings. They would, in fact, change an administrative regulation, namely 83 Ill. Adm. Code 287.30. This case, involving one division of a single, small water company, is not the place for such broad, utility-wide policy to be made. Certainly, other utilities and other interested parties will have positions on Staff's proposed rules and would want to comment on them. Yet, there are no other utilities or industry groups involved in this case and, as such, none have been given notice of Staff's proposed rules.

**57. Q. Do you have any other comments on the proposed rules?**

A. Yes. Even if they were appropriate for consideration in this docket, which they are not, their stringency is unreasonable. Take, for example, the proposed rule that would require all updates to be scheduled at the time of the pre-hearing conference. The pre-hearing conference occurs at the very beginning of the case. In almost all cases, a utility would not know that a "material and significant change" was going to occur in the future during the suspension period in order to schedule the update at the time of the pre-hearing conference. Parties would be forced to include an arbitrary date for an update in the schedule even though in most cases an update would not actually materialize. The need for the Parties to schedule around such a non-existent date would unnecessarily distort the rest of the schedule.

Moreover, the ALJ is already granted the power to address the timing of the update pursuant to 83 Ill. Adm. Code 287.30 in its current form. The ALJ will be fully capable to ascertain, based upon the facts of each case, whether the utility has prudently acted upon the update, whether the schedule needs to be modified to accommodate other parties' interests in addressing an update, and whether, even, an update should not be permitted because of the lateness in the case. The flexibility that is inherent in the Commission's current regulation is a much more reasonable means of ensuring that all parties' needs are met when any motion for an update is filed.

**58. Q. Do you have any other comments on Staff's proposed rules?**

A. Yes. The schedules that Staff proposes the Commission mandate for future Part 287 updates are ones that Staff proposed in response to Aqua's Motion, and the ALJ declined to adopt Staff's proposal. In particular, Staff asserts that future updates should be accompanied by new Schedules G-2 through G-5. This would be an unnecessary waste of time and expense, and it would not add to the substance of the filing.

To explain, to satisfy the "G" schedules, every utility has to bring in an independent certified public accountant (CPA) to review the original Part 285 filing and confirm that the future test year budget was prepared in accordance with the Guide for Prospective Financial Information (GPFI). 83 Ill. Adm. Code §285.7010(a). It cost Aqua \$26,000 to hire a CPA to review its original tariff filing in this case. In an update, it will often be the case that new evidence pertaining to a single budgeted item will materialize that shows the original budget for that single item to be



923 superseded. Certainly, accounting for such evidence by updating the  
924 budget for that item does not change the fact that the original budget  
925 was prepared in accordance with the GPFI. The utility and Staff will both  
926 be fully qualified to account for the new evidence in their positions, as  
927 the parties have done here. The budget does not need to be re-reviewed  
928 by a CPA to ensure that it still complies with the GPFI simply because a  
929 new piece of evidence has materialized that sheds more knowledge on  
930 an aspect of the future test year. Yet, Staff's proposed rules would  
931 require utilities to re-hire CPAs to re-review the budget and ascertain for  
932 a second time that it complies with the GPFI. In this case, that would  
933 have added yet another \$26,000 to rate case expense. This would be  
934 an unreasonable use of resources, and would unnecessarily and  
935 unreasonably drive rate case expense up.

936  
937 **59. Q. Is it necessary for the Commission to reach a decision on Staff's**  
938 **proposed rules for future Part 287 updates and your substantive**  
939 **comments thereon?**

940 A. No. As I stated above, this is not a proper docket for the Commission to  
941 consider Staff's proposed rules because the rules would affect all  
942 utilities. The Commission should only consider such proposals in a  
943 proceeding in which all utilities are provided notice and the opportunity to  
944 participate.

945  
946 **60. Q. Do any other Staff witnesses address the 287 filing/Capital**  
947 **Expenditure update?**

948 A. Yes. As I stated above, Mr. Ostrander accepts the update to Aqua's  
949 capital expenditures, but recommends three adjustments to Aqua's  
950 budget for capital expenditures. The three adjustments are:

- 951 (1) the disallowance of the 5% contingency in the capital budget;  
952 (2) a change in the in-service dates of the WTP Generator and  
953 Standpipe at Target from December 2006 to December 2007; and  
954 (3) the removal of the Bradley Booster Station upgrade from the  
955 budget because it was cancelled.

956

957 **61. Q. Do you agree that the \$245,241 of contingencies should be**  
958 **eliminated from capital projects as advocated by Mr. Ostrander?**

959 A. No. At this time, Aqua has spent \$90,000 of the Contingency, leaving a  
960 balance of contingencies at \$156,000. \$40,000 of the contingency is for  
961 a transition box. The other item is \$50,000 for known overtime for the  
962 contractor to work at night etc due to the delay in the delivering of the  
963 generator. Work will now have to be done on an expedited basis to keep  
964 on schedule and to be able to place these critical components of the  
965 electrical system in service while always maintaining the operation of the  
966 Plant. This is a critical piece to the contingencies. The Plant must always  
967 operate. We cannot simply shut down for 24 hours or even 12 hours  
968 while the old electrical components are taken out of service and the new  
969 components placed in service. The installation must be such that both  
970 the old and the new must be operational and the changeover be very  
971 quick so the Plant is never non operational. This operational restriction  
972 on upgrading critical components of the Plant such as electrical systems  
973 make the installation very difficult and results in unforeseen extras such  
974 as Overtime to accommodate this fact. The remaining \$146,000 on a

975 \$4.0 million dollar project is only 3.7% which, for this type of project, is  
976 very low.

977

978 What Mr. Ostrander appears to have missed in drafting his assertion is  
979 the fact that contingencies are a part of any construction project's  
980 budget. Contingencies are always built into construction schedules to  
981 account for such things as delays due to weather, sudden increases in  
982 the costs of building materials (as has occurred in this case, occasioning  
983 the update in the first place) and unforeseen aspects of construction.  
984 They are completely legitimate, a standard practice in the industry and,  
985 importantly, an element of the contractor pricing. Hence, Mr.  
986 Ostrander's proposed disallowance of this contingency is not  
987 appropriate.

988

989 **62. Q. Please respond to Mr. Ostrander's second proposed adjustment.**

990 A. Mr. Ostrander adjusts the Plant in Service dates for two projects -- the  
991 WTP Generator ("Generator") and the Standpipe at Target ("Standpipe")  
992 from 2006 to 2007. Mr. Ostrander asked Aqua when the Generator and  
993 Standpipe would be in-service in JMO 8.01. My response, attached  
994 hereto as Exhibit 11.6, clearly stated that both projects would be in-  
995 service by the end of 2006. Nonetheless, Mr. Ostrander totally  
996 disregards my sworn response and asserts instead, mistakenly, that the  
997 two projects will not be placed in service until the end of 2007.

998

999 **63. Q. What does Mr. Ostrander rest his mistaken assertion upon?**

1000 A. He bases his incorrect assertion on the fact that Aqua's expenses for the  
1001 two projects will continue into 2007. Simply because some expenses

will continue into 2007, he jumps to the unsubstantiated conclusion that the projects will not be completed and in-service by the end of 2006.

**64. Q. Is Mr. Ostrander's supposition regarding the in-service date correct?**

A. No, it is not. Attached hereto as Exhibit 11.7 are the project timelines (known as Gantt Charts) for both construction projects, clearly showing that (a) both projects will be in service by the end of 2006 and (b) that the projects are proceeding on schedule. Therefore, I can say with certainty that both the Standpipe and the Generator will be "in service" effective December 31, 2006.

**65. Q. Please explain how these projects can be in service at December 31, 2006 if there will be associated capital spending in 2007.**

A. Certainly. With regard to the Standpipe, the \$1,320,000 of capital to be expended in 2006 is exclusive of the painting component to be done in 2007 at a cost of \$240,000. The fact that the tank will not be painted until 2007 will not prevent the tank itself from being in service at December 31, 2006. If the Standpipe were not going to be placed in service until 2007, I would have said so in my response to JMO 8.01. Instead, as Mr. Ostrander notes in his rebuttal testimony, I show an in service date for the Standpipe of December 31, 2006, and correctly so.

It is apparent from Mr. Ostrander's rebuttal testimony that he was unclear about what he perceived to be an inconsistency between the in-service date of December 31, 2006, to which I attested, and the fact that \$240,000 will be incurred on the project in 2007. However, Mr.

1029 Ostrander did not try to clarify this question through additional discovery.  
1030 While he did indeed conduct further discovery on the updated capital  
1031 spending via numerous data requests, he did not ask about this  
1032 perceived inconsistency on his part. Had a data request asking for  
1033 clarification been issued on what Mr. Ostrander appears to have inferred  
1034 as inconsistent information provided by the Company, I would have  
1035 provided such clarification earlier. Nonetheless, I am providing the  
1036 necessary clarification herein.

1037  
1038 With regard to the generator, the \$116,696 that will be an  
1039 expenditure in 2007 is for the removal of the old generator. The new  
1040 generator must be in service and operational before the old generator is  
1041 taken out of service. The removal of the old generator from service does  
1042 not have anything to do with the placing of the new generator in service.  
1043 The Contractor does not show the removal of the old generator in the  
1044 schedule provided since the schedule provided is only for the project of  
1045 installing the new generator and the removal of the old generator is a  
1046 separate project.

1047

1048 **66. Q. Mr. Ostrander also points out that as of June 30, 2006, Aqua had**  
1049 **only spent 22% and 4% of its budget on the Standpipe and the**  
1050 **Generator, respectively. Please respond.**

1051 A. Mr. Ostrander makes a superficially appealing argument when he states  
1052 that not much of the budget has thus far been spent for either project to  
1053 date. He concludes, therefore, that it is unreasonable to believe that the

1054 projects will be completed by December of 2006. Mr. Ostrander's point  
1055 is, however, completely erroneous.

1056

1057 Both the Standpipe and the Generator will go into service December  
1058 2006, but the majority of the construction will occur in the fall, when  
1059 weather conditions are appropriate and operations are at a seasonal lull.  
1060 Given the fact that the Company does not pay the contractors for work  
1061 until a given phase of work is completed, it stands to reason that the  
1062 majority of the costs will be incurred by the Company in the fall, when  
1063 those project deadlines are met and when the work is done. The fact  
1064 that Aqua has not paid its contractors large sums before the work has  
1065 meet its construction deadlines has no bearing on whether Aqua will  
1066 actually pay those sums when the deadlines are met this fall. Indeed,  
1067 had Aqua paid its contractors in advance, as Mr. Ostrander appears to  
1068 suggest it should have, then Aqua would have lost a very important  
1069 leverage point with its contractors. The future payments are what keep  
1070 the contractors committed to their targeted deadlines because they know  
1071 they will not get paid if they do not meet the deadlines. It would have  
1072 been very imprudent for the Company to have paid the contractors  
1073 before the work was complete because, in doing so, the Company would  
1074 have lost this important leverage point. Hence, Mr. Ostrander's  
1075 supposition is in error.

1076

1077 **67. Q. Did the Company explain to Staff that one section of a project could**  
1078 **be transferred to Utility Plant in Service if complete earlier than**  
1079 **another section?**

1080 A. Yes. In response to JMO 9.03 (c), attached hereto as Exhibit 11.11, Mr.  
1081 Schreyer stated that, "Expenditures on a particular project are  
1082 transferred to Utility Plant In Service when that project, **or sections of**,  
1083 go into service in the system". (emphasis added).

1084

1085 **68. Q. Do you agree that Mr. Ostrander's cancelled plant adjustment is**  
1086 **reasonable?**

1087 A. Yes, I do.

1088

1089 **69. Q. Does this conclude your surrebuttal testimony?**

1090 A. Yes.